

Economic capacity in the evaluation of competition issues

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DIW econ GmbH

- DIW Berlin
 - Largest Economic Think Tank in Germany
 - Employs approx. 100 economists working in all major fields of applied economics, including industrial organization and competition economics

- DIW econ GmbH
 - 100% subsidiary, founded in 2007
 - Focus on increasing demand for economics consulting
 - Unique combination of leading academic experts and experienced consultants ensures high-quality analysis
 - Main competence areas include competition and regulatory policy
 - Regional exposure to Southeast Asia through several projects

Outline

- Role of economics in competition policy
- Economic capacity in competition authorities

Role of economics in competition policy?

1. Understanding competitive interactions (incentives, strategies, impact)
2. Improving competition law / fostering international convergence
3. Understanding contribution of competition policy to consumer welfare and economic growth

Insights derived from economic theory

Example (*Baye 2007*):

“For the case of a hypothetical “3 to 2 merger”, economic theory supports that ...

- ...anticompetitive effects can arise purely through unilateral effects, or
- ...anticompetitive effects can only arise through coordinated effects, or
- ...anticompetitive effects can arise through both, unilateral and coordinated effects, or
- ...the merger can entail neither unilateral nor coordinated anticompetitive effects!”

Then, what is economic theory useful for?

No “one size fits all” model!

Institutional structures and facts matter:

- Quantity or pricing decisions?
 - Prices determined through contract negotiation, a posted-price, or auctions?
 - How transparent are a firms’ decisions?
 - With which speed can firms respond to one another?
 - Impact do location and transportation costs have on prices?
 - How do consumers react to changes in the price of different firms?
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- Economic theory offers a range of different economic models
 - Choice of the right model crucial for sound economic analysis
 - Economics can also be abused to arrive at different results
 - Competition authorities rely on high-level economic capacity!

Improving competition law / fostering international convergence

Continuous improvements of competition law in the light of new insights into competitive impact of:

- uncoordinated effects
- vertical restraints
- buyer power
- two-sided markets
- etc.

Outline

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- Economic capacity in competition authorities

Economic capacity in leading competition authorities: US-Federal Trade Commission (FTC)

Bureau of economics:

- Separate department with more than 55 non-managerial career staff economists, most of them with a PhD
 - Headed by the Bureau Director (*Joseph Farrell*)
 - At least one economist assigned to each antitrust or merger case
 - Works on the case from the start of the investigation
 - Economists have organizational independence from lawyers, report only to “economic hierarchy”
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- Advantage: PhD-level economists and “economic hierarchy” to secure high quality
 - Disadvantage: expensive

Economic capacity in leading competition authorities: Directorate-General for Competition (EC)

- Approx. 200 out of 700 employs have economics background (all areas, including related business disciplines).
- Less than 20 officials hold a PhD-degree
- Interdisciplinary merger and antitrust case teams (lawyers and economists)
- All reporting to the same hierarchy

- Problem: no institutional structure to ensure quality of economic analysis

Economic capacity in leading competition authorities: Directorate-General for Competition (EC)

Office of the Chief Competition Economist (established in 2003):

- Chief Competition Economist (*Damien Neven*) plus 10 specialized economist (all with PhD in Economics)
- Support investigations on selected cases (one economist assigned, reports exclusively to “economic hierarchy”)
- Advise to Director General and Commissioner on Competition Policy issues
- Advantage: Targeted support to relevant cases, cost effective

Best practices for building and strengthening economic capacity

- Team of (PhD-level) economists as separate unit within national competition authority
- High-quality advise and supervision from independent board (e.g. Economic Advisory Group in EU, Monopolkommission in Germany)
- Interaction with other economists:
 - Internal seminars (involving also other branches of government such as economy, finance, energy, etc.)
 - External: universities, academic organizations and networks (e.g. Association of Competition Economists)
 - International Conference participation

Thank you for your attention!

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